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The Bilateral Trade Account: Still Waiting For The Big Turnaround

Disappointing. That was the reaction of policymakers in Tokyo and Washington alike to the news that the U.S. trade deficit with Japan had edged up in 1987's first half after dipping on a year-to-year basis in the opening quarter. Economists on both sides of the Pacific were also discouraged by the rise in the red-ink entry to $28.1 billion (imports on a Customs value basis) from $26.9 billion in the January-June 1986 period (or to $29.7 billion from $28.7 billion with imports valued c.i.f.) since they too had expected 1987 to be the watershed year for the bilateral trade account. But while the new trade numbers undercut government and private-sector predictions that the yen-dollar realignment would finally produce a significant turnabout in the huge imbalance this year, it is clear that the recent pattern of ever-bigger annual U.S. trade deficits with Japan has been broken.

At first glance this statement might seem to be an exercise in public relations. After all, sales to Japan did drop 3.8 percent in the first six months of 1987 to $12.6 billion despite the competitive benefits of the weaker

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January-June 1986	January-June 1987	Percent Change
Total Exports	$13,072.2	$12,573.7	-3.8%
Industrial Supplies	4,122.0	4,630.3	12.3
Bituminous Coal	325.4	248.9	-23.5
Petroleum Products	280.6	327.9	16.9
Natural Gas	98.7	64.2	-35.0
Logs and Lumber	493.3	648.6	31.5
Paper Base Stocks	254.9	325.9	27.9
Paper and Paper Products	166.8	196.3	17.7
Organic Chemicals	371.4	432.2	16.4
Inorganic Chemicals	394.5	385.9	-2.2
Plastics and Synthetic Resin Compounds	155.9	177.2	13.7
Manufactured Fertilizers and Insecticides	138.7	143.1	3.2
Steel Scrap	124.4	33.9	-72.7
Nonferrous Ores and Scrap	241.9	244.4	1.0
Nonferrous Metals	104.8	148.2	41.4
Textiles	57.8	71.2	23.2
Raw Cotton	96.3	195.7	103.2
Hides and Skins	164.0	170.8	4.1
Leaf Tobacco	74.0	159.7	115.8
Capital Goods	3,022.0	3,230.4	6.9
Nonelectric Machinery	1,689.5	1,867.8	10.6
Data Processing Equipment	656.7	757.3	15.3
Measuring, Testing and Control Instruments	220.7	255.8	15.9
Laboratory Testing and Control Instruments	49.4	56.6	14.6
Scientific, Professional and Medical Equipment	156.6	202.8	29.5
Power Generating Equipment (excl. aircraft and automotive engines)	37.7	44.3	17.5
Metalworking Equipment	76.1	64.5	-15.2
Service Industry Equipment	65.8	83.2	26.4
Electric Machinery	436.9	522.0	19.5
Generators and Transformers	38.0	31.9	-16.1
Broadcast and Communications Equipment	180.6	263.6	46.0
Telephonic and Other Electric Equipment	218.3	226.4	3.7
Transportation Equipment	895.6	840.6	-6.1
Civilian Aircraft	410.1	287.8	-29.8
Civilian Aircraft Engines and Parts	309.1	352.3	14.0
Automotive Parts	109.6	122.7	12.0
Food and Feed	2,344.3	2,475.0	5.6
Corn	475.2	454.2	-4.4
Sorghum	78.1	74.5	-4.6
Soybeans	447.6	377.9	-15.6
Wheat	231.3	180.9	-21.8

Fruits and Vegetables	287.5	364.1	26.6
Meat and Meat Products	351.1	407.9	16.2
Fish and Fish Products	232.7	346.6	48.9
Consumer Goods	790.3	1,206.8	52.7
Pharmaceuticals	327.2	344.8	5.4
Toys and Sporting Goods	44.2	78.9	78.5
Cigarettes	53.0	229.0	332.1

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January-June 1986	January-June 1987	Percent Change
Total Imports	$39,960.1	$40,628.0	1.7%
Automotive Products	15,728.3	16,497.9	4.9
Cars	9,837.0	9,928.2	0.9
Trucks	2,868.2	2,907.6	1.4
Automotive Parts	3,015.4	3,660.7	21.4
Capital Goods	12,332.0	13,692.8	11.0
Nonelectric Machinery	8,365.9	9,236.8	10.4
Business Machines	3,734.3	4,384.7	17.4
Metalworking Machinery	665.1	725.1	9.0
Agricultural Machinery	266.7	279.3	4.7
Specialized Industrial Machinery	763.8	881.6	15.4
Scientific, Professional and Medical Equipment	409.4	423.8	3.5
Electric Machinery	3,688.5	4,041.3	9.6
Transportation Equipment	277.6	414.7	49.4
Consumer Goods	7,644.2	6,207.2	-18.8
Video and Audio Recorders and Players and Stereo Equipment	2,930.2	1,878.6	-35.9
Television Sets	447.4	305.1	-31.8
Radio Receivers	119.5	127.8	6.9
Tableware and Glassware	218.8	196.7	-10.1
Metal Cookware and Cutlery	224.7	208.7	-7.1
Photographic and Optical Goods	545.2	539.4	-1.1
Clocks and Watches	226.4	236.3	4.4
Toys and Sporting Goods	246.4	275.9	12.0
Motorcycles and Parts	519.3	287.7	-44.6
Clothing	234.9	202.1	-14.0
Intermediate Goods	3,610.8	3,638.7	0.8
Steel Mill Products	1,270.3	1,079.9	-15.0
Nonferrous Metals	264.9	220.0	-16.9
Organic Chemicals	361.3	410.8	13.7
Textiles	438.3	407.3	-7.1

dollar. But this decline is a misleading indicator of American export strength since first half 1986 results were inflated by the transshipment of $2 billion worth of foreign bullion through the United States to Japan in June. Leaving out reexports, sales of U.S.-origin goods were up 13.4 percent at mid-year -- a strong showing under any circumstances but especially so given the combination of sluggish domestic Japanese demand in the April-June quarter, generally weak agricultural and industrial input prices and a temporary slowdown in aircraft deliveries. With government and business economists in Japan forecasting a healthy recovery in 1987's second half (see JEI Report No. 31B, August 14, 1987), firmer domestic demand will give a one-two boost to U.S. exports for the rest of the year.

The import numbers through June add weight to the prediction that the 1987 bilateral trade deficit will fall short of last year's $55 billion (or $58.8 billion imports c.i.f) figure by at least several billion dollars. Totaling $40.6 billion at the halfway point, purchases from Japan were up only 1.7 percent. Soft market conditions in a number of key U.S. markets certainly contributed to this slim gain, but the fact remains that the yen's 60 percent-plus appreciation since February 1985 has started to put a big dent in the volume of imports. A look at motor vehicle imports highlights what is happening to most other major products brought in from Japan: higher prices are triggering an offsetting drop in deliveries, with cars down 11 percent in the January-June 1987 period and trucks behind 7.2 percent. Since automotive parts, computer equipment and some other types of capital goods seem to be the only big-ticket products able to buck the yen's rise, it is a safe bet that 1987 purchases from Japan will be no higher than last year's.

Susan MacKnight

Japanese Reaction To The Trade Bill

The omnibus trade package pending before a House-Senate conference committee is, most observers agree, targeted more at Japan than any other single country. It is hardly surprising, then, that the Japanese government and business community have added their voices to the chorus protesting rising protectionism in the United States. These protests include complaints about revisions in U.S. trade law, sector-specific clauses and provisions that single out certain countries. Most worrisome to Japan and other U.S. trading partners, however, is the continued congressional focus on the trade practices of other countries rather than its own responsibility for the trade and budget deficits.

Most of the arguments focus on one point: the bill is incompatible with the General Agreement on Tariffs and Trade. Since the legislation is "strongly tinged with protectionism," according to the Japan Federation of Economic Organizations (Keidanren), its passage would endanger the new round of multilateral trade negotiations under the GATT. This point is made even more significant by the fact that the United States has been the major proponent of the new round. Keidanren goes on to warn that passage of the trade bill may injure this country's credibility during the negotiations -- an argument to which the White House is all too sensitive.

Japanese business leaders also claim that the bill's focus on reciprocity is inconsistent with the "widely accepted cardinal principles underpinning